

Albert Berry on Jeffrey Nugent's "Trade Liberalization:
Winners and Losers, Successes and Failures."

I guess my most general reaction, in thinking it over some more, is of imbalance between the careful thinking out of aspects of the reform process, but against a backdrop of less detailed analysis of the impacts of trade reform itself (see also my comments on the Zinnes-Azfar paper). Of course neither these papers nor this project are responsible for that latter analysis, but they give the impression of accepting an implicit looseness in the thinking about the merits of **ex post** trade reform which they would not accept about the process of trade reform. The implicit looseness comes out pretty clearly in your paper, since you talk a lot about how the apparent outcomes have not seemed to match the underlying theory, without however addressing the possibility that the problem could indeed lie in the theory itself. I realize this is an awkward point, since the project is not about trade theory. I have been asking myself how a bit of redirection of the project might get it out of what seems to me a dilemma: perhaps it would be to focus on the safer bits of the conventional wisdom on trade policy, perhaps other ways of qualifying it would do the job.

I may be seeing things too much from a Latin American perspective, but the empirical record there, as I read it, has probably moved us close to another substantial shift in our understanding. Not only have the bottom line outcomes not matched our predictions, but the mechanisms through which the predicted effects were to emerge seem in fact to diverge a great deal from those which were hypothesized to play key roles. I suspect the next wave of thinking around trade and its benefits will not only be much more "dynamic" and institutional in character, but it will focus essentially on investment (more physical than human since the latter is now less controversial, I think) and on technological change. For Latin America at least, we understand each of these very imperfectly. Whatever we ultimately come up with, I doubt that it will have such simple implications for trade policy as did the previous round of thinking. It's possible that trade will be downgraded to a second-order policy choice or that it will go the other way. Anyway, these are just musings which underlie some of my more concrete comments. Perhaps the relevant point from all of this is that trade issues and options should probably be judged much less on their static theoretical implications and much more on the dynamic ones (related to investment and technological change).

Details

1. If you were to accept the last point made above, would it have implications for trade reforms, i.e. which elements would be key and with what sequencing if what is really important is the implications of trade policy for investment and technological change? Does the East Asian experience give us important lessons in this domain which should be a centre of focus?

Does the term "getting the prices right" have any clear meaning if one looks at trade policy primarily from this more dynamic perspective?

2. When you say (p. 4 of my version of the paper) that it is "neither practical nor desirable that trade liberalization should take the same form in every country" I'm not clear on whether you are talking about

sequencing or something more basic; if the latter, what sort of differences may be involved and does this in fact negate the general applicability of significant parts of the usual trade reform package?

3. The Mexican (and Central American) maquiladora phenomenon raises some puzzles. On the one hand it is cited by ECLAC in various of their studies as the reason that the new model has been more employment-friendly there (at least in manufacturing) than in South America, where the decline in manufacturing employment has often been precipitous, as in Brazil. But if the maquiladoras are pretty employment friendly (unskilled labour friendly, in fact) it's confusing that Mexico is one of the countries with a big increase in inequality. Lots of things could be involved in this apparent anomaly--perhaps changing employment in tradables isn't as important a determinant of changes in inequality as we have been inclined to think?

4. I think Sam Morley's work testing for the impacts of the reforms on inequality is top of the line, but I think the methodological challenges are so great that I would reserve any judgments based on that cross-country approach. I think all we can say now is that the probable distributional impacts lie between a small beneficial impact at the one extreme and a sizeable negative one at the other.

5. I don't know what assessments have been made of the duty drawback systems in Latin America, but generally the best experiences with an intermediate policy framework showing some parallels with those of the East Asian tigers would be Brazil and Colombia in the late 1960s-early 1970s and Mexico at various times (I can't cite the dates). In the former two countries the growth rates got quite high (8-9% for Brazil and 6% for Colombia). I have sometimes wondered whether the drawback system made a contribution but don't know.

6. (p. 21) When one looks at Korea and Taiwan in the matter of policy credibility, was it more a matter of the government being very clear and strong in the way it affirmed its support for certain policies or was it a general affirmation of the fact that it would make sure firms that "behaved well" would get support (somehow) and would not be left in the lurch?

7. (p. 21) Regarding social safety net and worker and managerial training programs as elements of a reform, in the countries I am familiar with the populations would probably not take any promises seriously, simply because governments promise a lot more than they deliver and because these (especially the social safety net) are big changes, not trivial at all. Parenthetically, training programs as part of adjustment processes have a pretty bad name among specialists, even though they continue to be used--perhaps because they sound plausible and governments can't think of much else that does. If my perception is accurate here, it may exemplify that unhappy phenomenon--where the only suggested policies which are politically salable (because plausible) are of little value. That would be a rather sad conclusion to reach.

8. (p. 24) Chile is another case of a consumption boom. In that case it was not due to no devaluation of the currency but rather to a devaluation to a fixed rate at which the new peg was to occur, with misjudgment as to what the equilibrium rate would be. So the rate was fine for a while (even

undervalued) but eventually became overvalued and then the consumption boom occurred and helped to produce a big debt.

9. (p. 28). Letting TFP be maximized may however lead to a very high unemployment rate or a big increase in income inequality either of which could be a threat to reform. it sounds like a razor edge situation, which could go either way, depending on what happens in the SME sector.

10. In trying to sort out the Big-bang vs gradual approach, it would be interesting to try to work out the counterfactuals for cases which have proceeded one way or the other, and ask what the options might have been. One such case is Chile, where one can identify some of the mistakes which probably resulted from its being Big-bang, as well as some of the things which could not have been done gradually. Then one might be able to draw the balance as to whether the the alternative would have been better or no.